

**FY 2000 "CFO NWCF Material Weakness"  
(Supply Activities)**

**Background.**

Past efforts to correct material weaknesses discovered during audits of the NWCF financial statements from FY 1991 through FY 1999 have been less than successful, as evidenced by the repetitive problems identified in the NAVAUDSVC's NWCF CFO financial statement audit reports. One of the efforts to overcome this difficulty by the NAVAUDSVC, is to address many of its findings and recommendations to the activity level. Addressing findings and recommendations to the activity level is needed to directly relate the problems found with those responsible and accountable for correcting them. This approach also provides the activity level managers with a template for the identification and reporting of material weaknesses as discussed in the reference (a) DON Management Control Program.

Many of the NAVAUDSVC reported financial statement deficiencies may have been prevented if DFAS, in conjunction with the DON activities, had completed the required accounts reconciliation process. DON managerial accounting oversight responsibilities include, among other things, ensuring that the reconciliation of the GLAs to the subsidiary records and supporting source documentation is being performed by the designated responsible command, be it DFAS or DON. The reconciliation process is an important means of ensuring that transactions are properly recorded and documented.

Although an identified account balance weakness may seem minor at an individual activity level, when discovered at numerous activities it must be presumed to be systemic (DON-wide) and thereby constitutes a Departmental material weakness. Thus activity level problems must be corrected if the Department as a whole is to improve. By ASN(FM&C) memorandum of 29 March 1999, NWCF management commands have commenced a review of conditions preventing the NWCF from receiving an unqualified opinion to determine the needed corrective actions. This is a start towards identifying the NWCF activities to which these deficiency conditions are applicable. However, a more comprehensive effort by all levels is required to meet the goal of an unqualified opinion.

Therefore, in accordance with paragraph 13 of enclosure (1) to reference (a), the ASN(FM&C) has determined that open findings and associated recommendations on management controls that stem

Enclosure (3)

from financial statement audits are material weaknesses at the applicable level, and are to be considered open and uncorrected until all actions agreed to in the course of the audit are completed. **To comply with this requirement, NWCF supply activities allotment holders should report these identified deficiencies as a "CFO NWCF Material Weakness" through the chain of command in their FY 2000 Annual Management Control Certification Statement.**

### **General Procedures.**

FMFIA material weakness statements are consolidated as they are reported up the chain of command. To facilitate this and ensure consistency of reporting, we are providing the below uncorrected material weakness for supply activities (hard copy and diskette) which should be used by NWCF supply activities allotment holders as the FY 2000 "CFO NWCF Material Weakness". **If a NWCF supply activity allotment holder chooses not to report a weakness identified below, they must report back to ASN(FM&C) FMO and state they do not have that weakness or the weakness has been fixed.** This information must also be forwarded in that NWCF activity's FY 2000 Annual Management Control Certification Statement for inclusion in the consolidated material weakness as it is reported up the chain of command to CNO, CNR or CMC, as applicable. Weaknesses and milestones should be added when the activity has identified inaccurate account balances or other accounting and reporting weaknesses not identified in enclosure (3) of this memorandum. Based on the repeated findings and recommendations in prior NAVAUDSVC CFO audits, we expect a significant number of reportable material weaknesses at all NWCF supply activities allotment holders level. When reporting on those weaknesses and the efforts being made to correct them, the milestone dates, reflected in enclosure (3) of this memorandum, should be changed to reflect local conditions. For example, in most cases the milestones for the accounts' reconciliation process will be near term as they involve routine operating procedures. Should this not be the case the milestones would reflect a more long-term solution.

Enclosure (4) identifies the minimal controls to be included in the POA&M, referred to in enclosure (3) of this memorandum, which are aimed at improving the accuracy of the account balances. The NWCF supply activity's allotment holder POA&M should report actions to meet the milestones.

### **Subsequent Years Update of "CFO NWCF Material Weakness".**

This FY 2000 "CFO NWCF Material Weakness" will be monitored and reported, in accordance with reference (a), until such time that documentary evidence exists to support both an unqualified Statement of Assurance and an unqualified audit opinion. Documentary evidence, for example, would include the ability to demonstrate the integrity of the reported account balances and the currency of the source data based on the quantitative results of the quarterly reconciliation process. The NWCF supply activity's allotment holder subsequent years update of this material weakness should include newly identified account balance deficiencies, and other material weaknesses identified by the activity and open findings on management controls agreed to by management.

### **Description of The Phrase "Accounting Firm" as Used Herein.**

The below uncorrected material weakness milestone references to "accounting firm" means the appropriate DON or DFAS organization responsible for the particular function being discussed (e.g., DFAS, DFAS-CL, DFAS-CL OPLOCs, DFAS-KC, DFAS-Columbus Center (DFAS-CO) or NWCF activity depending on the milestone subject). Examples follow:

a. The phrase "accounting firm" in the milestone to complete a POA&M in conjunction with "accounting firm" to have accounting firm validate the balance of Accounts Receivable, Net, Federal account would be the activity that maintains the GLA and/or subsidiary records (e.g., DFAS-CL OPLOCs, DFAS-KC, DFAS-CO, NWCF activity).

b. The phrase "accounting firm" in the milestone to complete a POA&M in conjunction with "accounting firm" to have accounting firm validate the balance of Accounts Payable, Federal account would be the activity that maintains the GLA and/or subsidiary records (e.g., DFAS-CL OPLOCs, DFAS-KC, DFAS-CO, NWCF activity).

c. The phrase "accounting firm" in a milestone requiring the issuance of accounting procedures would be DFAS-CL. For DFAS owned accounting systems or DFAS owned critical feeder systems, DFAS-CL would coordinate system changes needed to implement the DFAS-CL accounting procedures with DFAS and appropriate Configuration Control Board or user's group CDA. The implementing accounting firm would be the activity that performs the accounting function (e.g., DFAS-CL OPLOCs, DFAS-KC, DFAS-CO).

**UNCORRECTED MATERIAL WEAKNESS (SUPPLY ACTIVITIES)  
IDENTIFIED DURING THE CURRENT PERIOD  
FY 2000**

**Title and Description of Material Weakness: *CFO NWCF.***

The Fund Balance with Treasury did not agree with activity level records.

The Accounts Receivable, Net, Federal account was inaccurate because reconciliations were not performed; transactions were not posted correctly; receivables were not reported and amounts reported were not owed.

The Accounts Receivable, Net, Non-Federal account was inaccurate because reconciliations were not performed; transactions were not posted correctly; receivables were not reported and amounts reported were not owed.

The Inventory account was inaccurate because of unposted documents; erroneous inventory counts; erroneous gains or losses; incorrectly stowed material; erroneous issues and receipts processed; and misidentified and commingled material.

The MIT account was inaccurate because receipts were not always posted or were posted at erroneous unit prices; and contract modifications were not reflected.

The Property, Plant and Equipment account, including accumulated depreciation, contained errors (e.g., inaccurate costs; incorrect depreciation; fixed assets recorded in the financial statements could not be located; fixed assets were not removed from the financial statements after disposal or transfer; and assets were misclassified).

The Accounts Payable, Federal account is inaccurate because it did not reconcile to the subsidiary ledgers; was not liquidated for paid liabilities; contained bookkeeping errors; lacked sufficient supporting documentation; transactions were misclassified as Accounts Payable, Non-Federal; and contained undistributed disbursements over 180 days old.

Other Assets balance which includes Advances and Prepayments, Non-Federal account balance is not accurate because payment data was not properly registered or recorded; system weaknesses; and payment errors were not corrected.

Other Federal (Intragovernmental) Liabilities account balance is not accurate due to systemic processing problems impacting the Advance Return of Depot Level Repairable Carcasses account balance; and failure to perform comprehensive reviews of intragovernmental liabilities.

The Accounts Payable, Non-Federal account was inaccurate because Federal liabilities were reported as Non-Federal liabilities and vice a versa; invalid transactions; inadequate or late postings; bookkeeping errors; imprecise accounting period cutoff; and automated records not updated when prices became definitized.

Unmatched Stock-in-Transit (SIT) balances were not accurate.

These material weaknesses are not all correctable within DON. Correction of systemic problems in supply activities' MIT and progress payment account balances and other accounts such as Accounts Receivable, Net, Federal; Advances and Prepayments, Non-Federal; Accounts Payable, Federal; Accounts Payable, Non-Federal; and Other Revenues and Financing Sources and related Depreciation and Amortization, are contingent on outside sources.

**Functional Category:** Comptroller and Resource Management

**Pace of Corrective Action**

**Year Identified:** FY 2000

**Original Targeted Correction Date:** FY 2000

**Targeted Correction Date in Last Year's Report:** N/A

**Current Target Date:** FY 2000

**Reason For Change in Date(s):** N/A

**Component/Appropriation/Account Number:** NWCF (97X4930)

**Validation Process:** All corrective action(s) are certified by responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review. Plans for, and progress on, corrective actions will be reported via feeder reports for the Annual FMFIA Statement of Assurance.

**Results Indicators:** Correction of material weaknesses identified during audits of CFO financial statements will be shown when the statements receive an unqualified audit opinion.

## Source(s) Identifying Weakness

- NAVAUDSVC Report No. 024-98, *"FYs 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund"* of 27 February 1998
- NAVAUDSVC Report No. 049-98, *"FYs 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund: Reportable Conditions"* of 28 September 1998

## Major Milestones in Corrective Action

### A. Completed Milestone

### B. Planned Milestone

Date	Milestone
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9/00	Complete a POA&M to perform periodic validations of source data supporting all NWCF activity maintained subsidiary records of GLAs to ensure the accuracy of the subsidiary records; and integrity and currency of the source data.
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9/00	Pending the accounting firm's issuance of Fund Balance with Treasury reconciliation procedures, complete a POA&M in conjunction with accounting firm to validate the Supply Management cash balance.
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9/00	Complete a POA&M in conjunction with accounting firm to have accounting firm validate the balance of Accounts Receivable, Net, Federal account to ensure that the general ledger balance and other associated financial balances are reconciled, at least on a quarterly basis, with the amounts contained in the supporting records, including original source data. Participate in the reconciliation process for the DFAS maintained subsidiary records when the original source documents or transactions that require research to complete the reconciliation are retained by DON activities. If subsidiary records are maintained by the DoD Component, request DFAS in accordance with DoD FMR, Volume 6, Chapter 2, paragraph 020204A to establish a reconciliation schedule, to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the customer. This review will ensure that all transactions are properly documented and represent amounts due.
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9/00 Request accounting firm to vigorously pursue Accounts Receivable, Net, Federal debt collections.

9/00 Complete a POA&M in conjunction with accounting firm to have accounting firm validate the balance of Accounts Receivable, Net, Non-Federal account to ensure that the general ledger balance and other associated financial balances are reconciled, at least on a quarterly basis, with the amounts contained in the supporting records, including original source data. Participate in the reconciliation process for the DFAS maintained subsidiary records when the original source documents or transactions that require research to complete the reconciliation are retained by DON activities. If subsidiary records are maintained by the DoD Component, request DFAS in accordance with DoD FMR, Volume 6, Chapter 2, paragraph 020204A to establish a reconciliation schedule, to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the customer. This review will ensure that all transactions are properly documented and represent amounts due.

9/00 Complete a POA&M in conjunction with accounting firm to have accounting firm validate the balance of Inventory account to ensure that the general ledger balance and other associated financial balances are reconciled, at least on a quarterly basis, with the amounts contained in the supporting records, including original source data. Participate in the reconciliation process for the DFAS maintained subsidiary records when the original source documents or transactions that require research to complete the reconciliation are retained by DON activities. If subsidiary records are maintained by the DoD Component, request DFAS in accordance with DoD FMR, Volume 6, Chapter 2, paragraph 020204A to establish a reconciliation schedule, to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the customer.

9/00 Complete a POA&M to perform periodic validations to ensure the accuracy of the subsidiary records against the applicable physical count of Inventory.

9/00 Complete a POA&M in conjunction with accounting firm to have accounting firm validate the balance of Property, Plant and Equipment account, including accumulated depreciation, to ensure that the general ledger balance and other associated financial balances are reconciled, at least on a quarterly basis, with the amounts contained in the supporting records, including original source data. Participate in the reconciliation process for the DFAS maintained subsidiary records when the original source documents or transactions that require research to complete the

reconciliation are retained by DON activities. If subsidiary records are maintained by the DoD Component, request DFAS in accordance with DoD FMR, Volume 6, Chapter 2, paragraph 020204A to establish a reconciliation schedule, to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the customer.

9/00 Complete a POA&M to perform periodic validations to ensure the accuracy of the subsidiary records against the applicable physical count of equipment and real property; and ensure assets are capitalized in accordance with DoD guidance.

9/00 Complete a POA&M to validate that depreciation for capital assets is properly calculated and charged in accordance with DoD guidance.

9/00 Complete a POA&M in conjunction with accounting firm to have accounting firm validate the balance of Other Assets balance which includes Advances and Prepayments, Non-Federal account balance to ensure that the general ledger balance and other associated financial balances are reconciled, at least on a quarterly basis, with the amounts contained in the supporting records, including original source data. Participate in the reconciliation process for the DFAS maintained subsidiary records when the original source documents or transactions that require research to complete the reconciliation are retained by DON activities. If subsidiary records are maintained by the DoD Component, request DFAS in accordance with DoD FMR, Volume 6, Chapter 2, paragraph 020204A to establish a reconciliation schedule, to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the customer. This review will ensure that payment data has been properly registered and recorded, and payment errors are detected and corrected.

9/00 Complete a POA&M in conjunction with accounting firm to have accounting firm validate the balance of Accounts Payable, Federal account to ensure that the general ledger balance and other associated financial balances are reconciled, at least on a quarterly basis, with the amounts contained in the supporting records, including original source data. Participate in the reconciliation process for the DFAS maintained subsidiary records when the original source documents or transactions that require research to complete the reconciliation are retained by DON activities. If subsidiary records are maintained by the DoD Component, request DFAS in accordance with DoD FMR, Volume 6, Chapter 2, paragraph 020204A to establish a reconciliation schedule, to reconcile the subsidiary records with the financial



balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the customer. This review will ensure that supporting documentation is maintained.

9/00 Complete a POA&M in conjunction with accounting firm to ensure that undistributed disbursements over 180 days old are expensed in accordance with ASN(FM&C) memorandum of 3 March 1998.

9/00 Complete a POA&M in conjunction with accounting firm to have accounting firm validate the balance of Accounts Payable, Non-Federal account to ensure that the general ledger balance and other associated financial balances are reconciled, at least on a quarterly basis, with the amounts contained in the supporting records, including original source data. Participate in the reconciliation process for the DFAS maintained subsidiary records when the original source documents or transactions that require research to complete the reconciliation are retained by DON activities. If subsidiary records are maintained by the DoD Component, request DFAS in accordance with DoD FMR, Volume 6, Chapter 2, paragraph 020204A to establish a reconciliation schedule, to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the customer. This review will ensure that supporting documentation is maintained.

9/00 Complete a POA&M in conjunction with accounting firm to ensure that Accounts Payable, Non-Federal over 180 days old are valid.

9/00 Supply activities have all definitizing contract modifications and other modifications sent to accounting personnel.

9/00 Complete a POA&M in conjunction with accounting firm to have accounting firm validate the balance of Other Federal (Intragovernmental) Liabilities account to ensure that the general ledger balance and other associated financial balances are reconciled, at least on a quarterly basis, with the amounts contained in the supporting records, including original source data. Participate in the reconciliation process for the DFAS maintained subsidiary records when the original source documents or transactions that require research to complete the reconciliation are retained by DON activities. If subsidiary records are maintained by the DoD Component, request DFAS in accordance with DoD FMR, Volume 6, Chapter 2, paragraph 020204A to establish a reconciliation schedule, to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial

balance is a joint responsibility of DFAS and the customer. This review will ensure that the Advance Return of Depot Level Repairable Carcasses account balance is accurate.

9/00 Complete a POA&M in conjunction with accounting firm to reconcile the differences between the PX06 Inventory Accounting and Billing System and the PR04A Carcass Tracking File and make appropriate adjustment to the Advance Return of Depot Level Repairable Carcasses account balance. The POA&M should include PX06 system changes to incorporate posting logic for adjusting those liability records.

9/00 Complete a POA&M in conjunction with accounting firm to have accounting firm validate the balance of Other Non-Federal Liabilities account to ensure that the general ledger balance and other associated financial balances are reconciled, at least on a quarterly basis, with the amounts contained in the supporting records, including original source data. Participate in the reconciliation process for the DFAS maintained subsidiary records when the original source documents or transactions that require research to complete the reconciliation are retained by DON activities. If subsidiary records are maintained by the DoD Component, request DFAS in accordance with DoD FMR, Volume 6, Chapter 2, paragraph 020204A to establish a reconciliation schedule, to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the customer. This review will ensure that transactions are based on adequate support from performance documentation.

9/00 Complete a POA&M in conjunction with accounting firm to ensure that all Other Non-Federal Liabilities over 180 days old are followed up on for validity.

9/00 Supply activities management command in conjunction with their accounting firm complete a POA&M to report financing source and corresponding depreciation expense from real property assets in Other Revenues and Financing Sources and Depreciation and Amortization once the accounting firm provides procedures and coordinates accounting systems changes.

9/00 Supply activities management command will take action to develop and implement an Advanced Traceability and Control, Ready for Issue/Returns Redistribution Order Accountability and Control System to correct the differences between the SIT financial and inventory records.

9/00        Supply activities in conjunction with their accounting firm, through coordination with appropriate system CDA, complete a POA&M to determine if a deficiency causing account balance inaccuracies is a system or a business process deficiency. If system, officially identify the deficiency to DFAS and appropriate Configuration Control Board or user's group, with copy to ASN(FM&C) FMO. You should include full details of accounting systems deficiencies for DFAS owned accounting systems or DFAS owned critical feeder systems which cause account balance inaccuracies. If the system deficiency is material, DFAS should include it in their Annual Management Control Certification Statement.

9/00        Supply activities in conjunction with their accounting firm, through coordination with appropriate system CDA, complete a POA&M to determine if a deficiency causing account balance inaccuracies is a system or a business process deficiency. If system, officially identify the deficiency to the appropriate system CDA and DFAS, with copy to ASN(FM&C) FMO. You should include full details of accounting systems deficiencies for DON owned accounting systems which cause account balance inaccuracies and your planned corrective actions. If the system deficiency is material, it should be included in the NWCF activity "CFO NWCF Material Weakness".

9/00        Supply activities in conjunction with their accounting firm complete a POA&M to officially provide to the appropriate functional proponent, with copy to ASN(FM&C) FMO, full details of non-accounting systems deficiencies for DON owned feeder systems which cause account balance inaccuracies and the planned corrective actions. If the system deficiency is material, it should be included in the NWCF activity "CFO NWCF Material Weakness".

9/00        Supply activities in conjunction with their accounting firm complete a POA&M to officially provide to the appropriate system CDA with copy to DFAS and ASN(FM&C), full details of legacy accounting systems deficiencies which are preventing the completion of the required reconciliation process for which there is no planned corrective action as directed by DoD, DFAS or ASN(FM&C). If the system deficiency preventing completion of the required financial statement reconciliation of GLAs and other associated balances is material, it should be included in the NWCF activity "CFO NWCF Material Weakness", if DON owns the system. The material weakness should be clearly marked to indicate that there is no planned corrective action, other than its replacement with the DFAS interim migratory accounting system, if that is the case.

9/00        **Verification:** Plans for and progress on most corrective actions will be reported via the Annual FMFIA Statement of Assurance. Corrective actions are also reviewed through follow-up audits, inspections, and quality assurance reviews.

**Point of Contact:    Name (Command/Code), Telephone Number**

**Footnotes:**